

China Property Sector

One day one policy: profit taking may start on POE names

Property names are likely to trade high at market open today again on MOHURD's relaxation of pre-sales escrow account supervision. However, we suggest investors to make use of it to take profits on POE names as 1) the recent POE rally (>100% in 3 days) has largely priced in the policy support. If we recalled Oct 2021 and Mar 2022 when Vice Premier Liu /PBOC/CBIRC/MOHURD also came out with strong support, the actual implementation was not so straightforward which led to sector de-rating again. So we need to wait for more follow-ups before next action. 2) Fundamental-wise, property sales are even further weakening till year end. 3) Money-wise, southbound which contributed 1/3 of the daily volume, showed a sign of retreat already. 4) Valuation-wise, Longfor is back to 0.9x PB, same as CRL. Also our investor feedback is generally towards risk off, rather than chasing high. **Recent risk:** equity placement. **Next buying opportunity:** actual COVID relaxation so it gives hope to property sales recovery.

- **Policy has been largely priced in in the near term:** We see latest policy support as a breakthrough mainly because it has extended liquidity support from “ensuring completion” to “keeping survivors safe”. This can be seen from our policy read below. However, these policies are just to help extend lifelines but unlikely to turn around their sales/earnings. Also, the policy implementation is the key for the actual impact in the next phrase as previous policy calls in Oct 2021 and Mar 2022 turned out to be less effective. POE valuation-wise, Longfor is now trading at 0.9x PB, same as CR Land already. For now we think the recent rally has largely priced in the policies.

 - **MOHURD (Nov 14th):** qualified developers can use banker's letter of guarantee to take out 30% of cash in escrow account for project debt repayment. **Our read:** Literally, this may give SOE and POE names in the white list (CG, Longfor, Midea, Seazen) more free cash for liquidity. However, the actual impact is subject to local government and under the home completion target, we do not expect much relaxation when it comes to implemation based on historical track record.
 - PBOC/CBIRC's 16 measures and RMB1tn net debt increase/NAFMII's MTN support: We are positive on the MTN issuance for above POEs as these names may issue RMB15-20bn size in different phases to boost short-term liquidity under China bond issuance's protection scheme. Also, PBOC is also supporting POEs to extend debts due in 6 months for one year and that may give POEs more buffer with creditors.
- **Property sales continued to weaken on a low base due to pandemic:** After a sluggish Oct sales, Nov was not seeing any sign of improvement but even worsening on more serious pandemic. The MTD sales of major 30 cities in Nov declined 32% YoY, vs. Sep at -14% and Oct -20% as COVID cases surpassed >10k per day and Guangzhou/Chongqing are heavily impacted. Looking into December, our leading indicator GAIN (Zeng, Miao, Li) still indicated a bad ending of the year which may conclude 2022 national sales decline of 30%. Therefore, investors may still need to wait for COVID control relaxation and more demand supporting policy in order to see sales pick up. We expect 2Q-3Q23 to be more likely.
- **Money flow: Southbound started to net sell on 14 Nov:** We think this rally was partly driven by the southbound as they contributed more than 1/3 of the daily transaction based on HKEX connect data since 9 Nov. However, we

OUTPERFORM
(Maintain)

China Property Sector

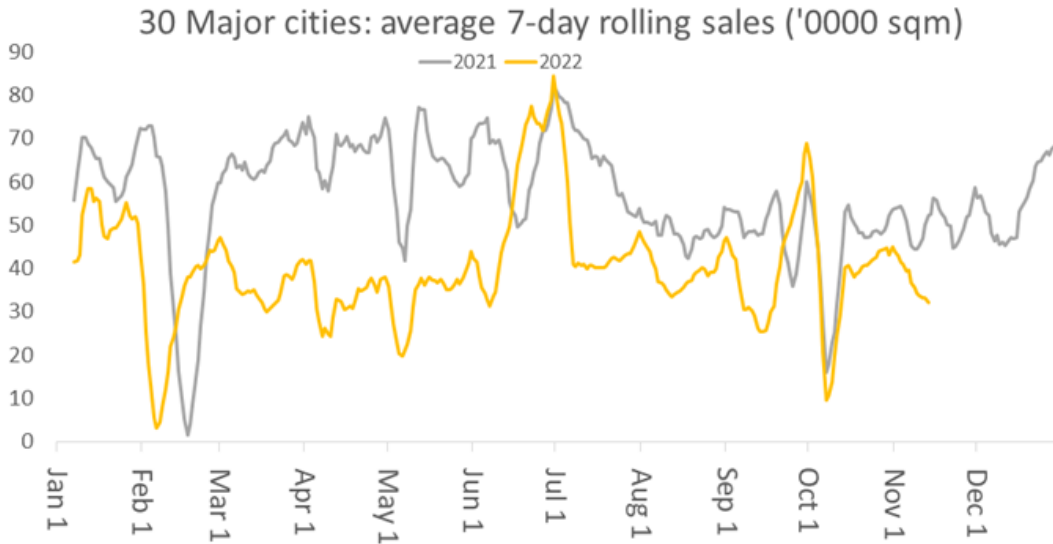
Jeffrey Zeng
(852) 3916 3727
jeffreyzeng@cmbi.com.hk

Miao Zhang
(852) 3761 8910
zhangmiao@cmbi.com.hk

Bella Li
(852) 3757 6202
bellali@cmbi.com.hk

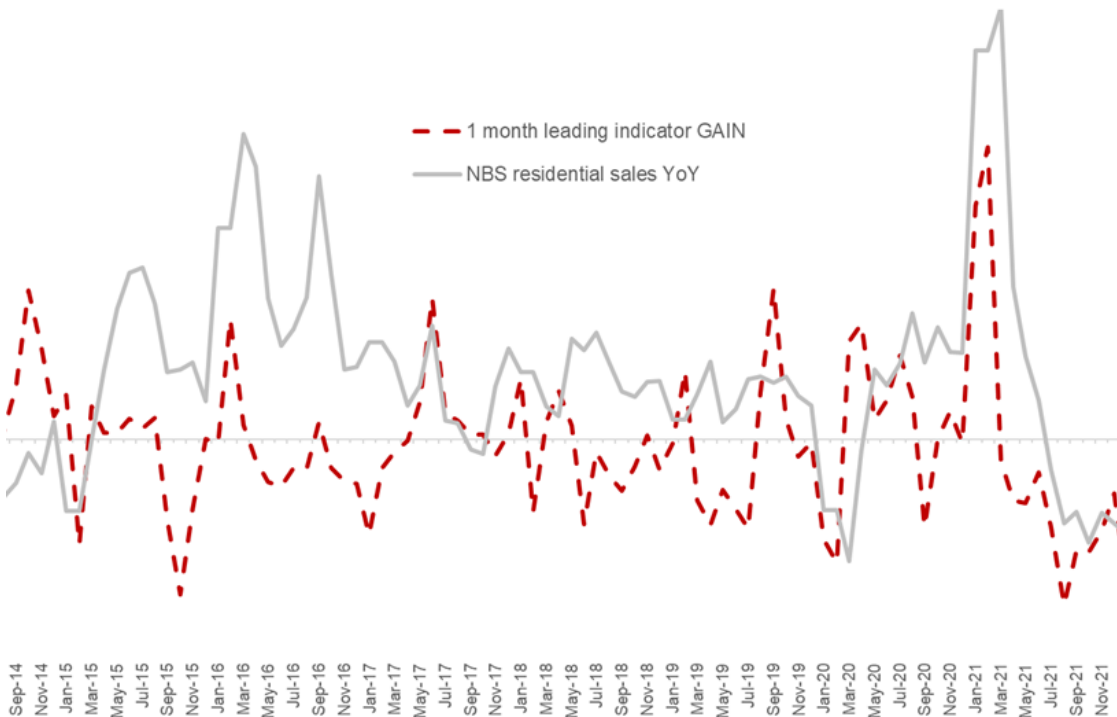
started to observe some money outflow on 14 Nov: Country Garden Service (net sell of HK\$500mn or 11% of daily volume), CIFI (net sell of HKD30mn or 1.5% of daily volume). Therefore, if southbound money pulls off more after policy adrenaline fades away, this may create huge downside volatility on these POE names that rose heavily since the recent bottom (CIFI +258%, Country Garden +226%, Longfor +192%, Seazen +184%, CGS +156%).

Figure1: MTD Nov sales continued to weaken at -32% YoY vs. -14%/-20% in Sep/Oct



Source: Wind

Figure 2: Our Leading indicator also weakened in Nov, pointing to a sluggish Dec sales



Source: CMBIGM, NBS

Figure 3: Compsheet of developers

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E				PB 22E	Dividend Yield	
					20A	21A	22E	23E		21A	22E
Vanke - H	2202 HK	13.84	203,562	33.92	3.4	5.9	6.2	6.0	0.6	8%	6%
COLI	688 HK	20.05	219,445	30.49	5.1	5.0	5.6	5.3	0.5	7%	5%
Country Garden	2007 HK	3.26	79,527	13.36	1.9	2.2	4.6	4.6	0.3	11%	6%
CR Land	1109 HK	34.10	243,165	44.79	9.0	7.6	7.9	7.2	0.9	5%	4%
Longfor	960 HK	21.20	133,162	52.59	5.9	4.6	4.9	4.5	0.8	10%	6%
Shimao	813 HK	4.42	16,786	NA	1.1	1.1	1.3	1.3	0.1	26%	29%
Agile	3383 HK	3.04	11,908	NA	1.1	3.8	2.3	2.5	0.2	20%	0%
KWGW	1813 HK	1.82	5,794	NA	0.8	1.2	2.7	2.6	0.1	25%	0%
Times China	1233 HK	1.11	2,333	NA	0.4	0.6	1.5	1.2	0.1	9%	0%
China SCE	1966 HK	0.77	3,252	NA	0.9	0.9	1.3	1.5	0.1	26%	0%
CIFI	884 HK	1.36	12,850	NA	1.3	1.3	2.1	2.1	0.2	13%	5%
Seazen	1030 HK	3.47	22,575	NA	2.2	2.0	3.3	3.4	0.4	0%	0%
Midea	3990 HK	9.23	12,510	NA	2.4	2.5	3.7	3.7	0.4	21%	11%
Vanke - A	000002 CH	16.39	183,115	31.36	4.5	8.4	8.0	7.5	0.8	6%	5%
Poly Development	600048 CH	16.29	194,999	5.55	6.7	7.1	6.9	6.6	0.9	4%	4%
Binjiang Real Estate	002244 CH	10.84	33,728	3.56	14.5	11.2	9.2	7.8	1.4	2%	2%
Average					3.8	4.1	4.5	4.2	0.5	12.0%	5.3%

Source: CMBIGM, NBS

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.